

Fairfax County Economic Index

Volume I, Number 12

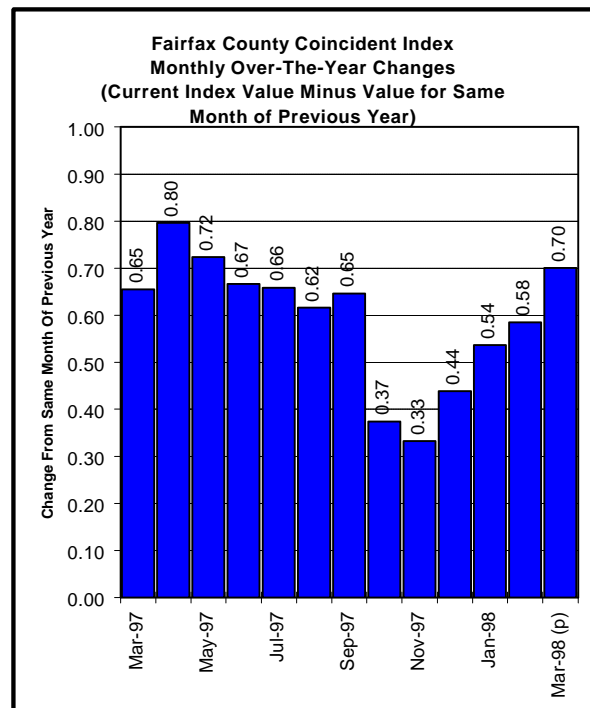
MAY 1998

Economy Accelerates in March Slower Growth Projected By Year's End

The **Fairfax County Coincident Index**, which represents the current state of the County's economy, increased 0.19 percent in March extending its upward trend for a fifth consecutive month. Since October, the last month for which the Index was negative, it has gained 0.51 percentage points and substantially widened its gap with the Index's 12-month moving average. In March, all four of the Index's components gained for the first time since April of last year.

- Total employment gained for the third consecutive month and for the tenth time over the past twelve months;
- Transient Occupancy Tax collections increased for the fifth month in a row following three months of decline;
- Consumer confidence increased for a second month; and
- Seasonally adjusted retail sales rebounded sharply from February's decline and have now been up in two of the year's first three months.

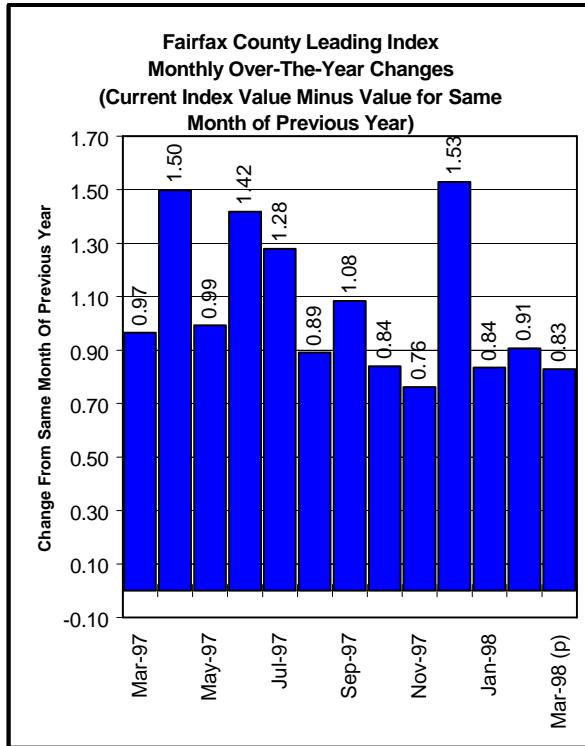
The **Fairfax County Leading Index**, which is designed to forecast the performance of



Source: GMU Center for Regional Analysis.

the County's economy 9 to 12 months in advance, decreased 0.07 percent following February's decline of 0.15 percent. This is the Index's first two-month decline since July-August 1997. However, even with these two monthly decreases, the Leading Index remains well above its same-month level in March 1997. In March, four of the Index's five components contributed to its decline.

We are on the web at:
www.co.fairfax.va.us/comm/economic/economic.htm



Source: GMU Center for Regional Analysis.

- New automobile registrations fell for the third month in a row and for the fourth time in the last five months;
- Initial claims for unemployment insurance increased (worsened) for the second month;
- Consumer expectations (consumer confidence six months hence) decreased for the second time in the last three months; and
- The mean value of residential building permits declined for a second month; while
- Residential building permits increased for the second month following two months of decline.

CURRENT CONDITIONS

The upward trend in the performance of the Coincident Index since last October shows the Fairfax County economy to be accelerating, with growth during the first quarter of 1998 being substantially stronger than during the final months of 1997. This growth reflects a positive performance

across the breadth of the economy. This balanced strength has positioned the County for continuing gains without any apparent distortions that could undercut future growth in the short term.

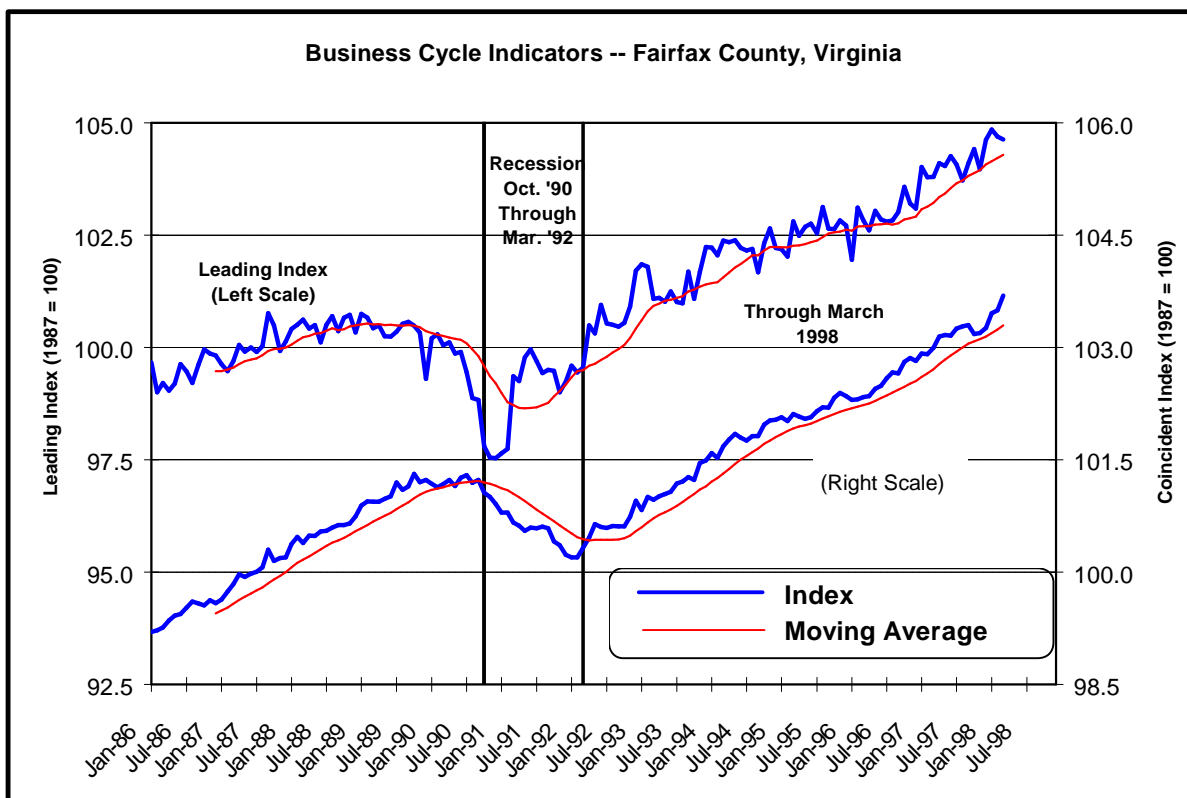
Job growth continues to provide the best evidence of the economy's strength. While job growth has moderated slightly from 1997, the 3.9 percent gain in March, in the face of a 1.7 percent seasonally adjusted unemployment rate, should be viewed positively. With employment growth far out-pacing labor force growth (1.5 percent), some slowing will help reduce the wage pressures and labor shortage. If this job growth rate were to hold for the year, job gains would total around 17,300, down from last year's estimated 19,000 job gain. While it is far too early to be projecting the year's job growth total, the trend that has emerged through the year's first quarter is consistent with broader forecasts for the Northern Virginia economy that have its gains moderating slightly from 1997.

In addition to the County's ability to generate new jobs, the County's residents are continuing their retail spending. With consumer confidence at its peak value and increasing over the past two months, retail sales, adjusted for inflation and seasonal variation, experienced a strong 30.6 percent monthly gain (from February) and 21.0 percent gain from March 1997. This monthly over-the-year increase substantially exceeded the 2.1 percent gain reported from nationwide retail sales.

Rounding out this picture is the healthy performance of the County's hospitality industry. Not only has it grown month to month during the first quarter but its has improved substantially over the year. With a monthly over-the-year 23.1 percent increase in hotel revenue in March, the County's hospitality industry appears on track for another record year.

NEAR-TERM OUTLOOK

While the Leading Index stands considerably higher than it did a year ago, its two months of decline and the broad-based weakness among its components point to a moderation in the leading edge of the County's economy. This softening in the leading indicators may be partially explained by seasonal factors and could very likely be just a temporary slowdown. The direction of the Index will



Source: GMU Center for Regional Analysis.

become clearer in the coming months. Still, by declining in both February and March, the Leading Index is pointing to some moderation in the growth trend by the end of the year.

Consumer spending is an important driver of the local economy. Three key measures of consumer spending are: consumer expectations, durable goods retail sales, and new home sales. In Fairfax County, new automobile registrations (a proxy for durable goods sales) have been trending lower for almost a year. Seasonally adjusted sales have declined on a month-to-month basis in seven of the last twelve months and for each of this year's first three months. Monthly over-the-year automobile sales in March are up just 1.7 percent.

The volume of residential building permits provides an indication of the County's future residential sales outlook. Residential building permits were up in February and March (on a seasonally adjusted basis) after being down in December and January with monthly over-the-year residential building permits up 182.2 percent. However, in contrast to this growth in the number of permits,

their mean value has declined, dropping 13.7 percent in one month and 30.5 percent compared to last March. These data suggest that residential builders are planning to increase their output of more moderately priced housing units, a trend consistent with lower expectations for the economy's long-term performance.

The final leading indicator presents a mixed message. With the unemployment rate in the County standing below 2 percent and job growth continuing to exceed labor force growth by a factor greater than 2, it would seem unlikely that initial claims for unemployment insurance also would increase as they did in both February and March. One explanation for this increase is that the tight labor market is bringing persons back into the labor force who had previously dropped out. With employment opportunities so great, potential labor resources at the very margins of the workforce are being attracted back into the market and temporarily increasing the initial claims count during their transition into the employment base. This condition will be self-correcting over the coming quarter and is not indicative of a softening of the labor market.

Fairfax County, Virginia Economic Indicators Current and Previous Months

| Economic Indicator | Estimates | | | Percent Change | |
|--|-------------------|-----------------|-----------------|------------------------|------------------------|
| | Mar-98 Prelim. | Feb-98 Final | Mar-97 Final | Feb-98 to Mar-98 | Mar-97 to Mar-98 |
| Fairfax County Business Cycle Indicators | | | | | |
| Coincident Index (1987 = 100) | 103.69 | 103.50 | 102.99 | 0.19 | 0.68 |
| Leading Index (1987 = 100) | 104.63 | 104.70 | 103.80 | -0.07 | 0.80 |
| Fairfax County Coincident Index Components | | | | | |
| Total Covered Employment (Seasonally Adjusted) | 463,646 | 462,532 | 446,352 | 0.24 | 3.87 |
| <i>Total Covered Employment (Unadjusted)</i> | <i>460,906</i> | <i>456,736</i> | <i>443,714</i> | <i>0.91</i> | <i>3.87</i> |
| Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted) | 317.1 | 301.2 | 257.6 | 5.28 | 23.09 |
| <i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i> | <i>437.3</i> | <i>455.6</i> | <i>346.8</i> | <i>-4.01</i> | <i>26.10</i> |
| Sales Tax Receipts (\$'000='87, Seasonally Adjusted) | 7,819.6 | 5,989.1 | 6,461.9 | 30.56 | 21.01 |
| <i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i> | <i>8,978.5</i> | <i>7,448.3</i> | <i>7,642.3</i> | <i>20.54</i> | <i>17.48</i> |
| South Atlantic Consumer Confidence | 173.4 | 170.3 | 154.6 | 1.82 | 12.16 |
| Fairfax County Leading Index Components | | | | | |
| New Automobile Registrations (Seasonally Adjusted) | 4,524 | 4,848 | 4,450 | -6.70 | 1.66 |
| <i>Automobile Registrations (Unadjusted)</i> | <i>4,597</i> | <i>3,890</i> | <i>4,522</i> | <i>18.17</i> | <i>1.66</i> |
| Initial Unemployment Claims (Seasonally Adjusted) | 760 | 757 | 727 | 0.47 | 4.65 |
| <i>Initial Unemployment Claims (Unadjusted)</i> | <i>833</i> | <i>820</i> | <i>796</i> | <i>1.59</i> | <i>4.65</i> |
| South Atlantic Consumer Expectations | 114.7 | 117.8 | 109.7 | -2.63 | 4.56 |
| Residential Building Permits (Number of Units, Seasonally Adjusted) | 900 | 635 | 319 | 41.66 | 182.25 |
| <i>Residential Building Permits (Number of Units, Unadjusted)</i> | <i>1,081</i> | <i>546</i> | <i>383</i> | <i>97.99</i> | <i>182.25</i> |
| Average Residential Building Permit Value (\$='87 Per Unit, Seasonally Adjusted) | 57,242 | 66,345 | 82,383 | -13.72 | -30.52 |
| <i>Average Residential Building Permit Value (\$=Current Per Unit, Unadjusted)</i> | <i>74,023</i> | <i>85,778</i> | <i>105,102</i> | <i>-13.70</i> | <i>-29.57</i> |
| Fairfax County Labor Force | | | | | |
| Total Labor Force (Seasonally Adjusted) | 535,498 | 534,551 | 527,379 | 0.18 | 1.54 |
| <i>Total Labor Force (Unadjusted)</i> | <i>532,842</i> | <i>529,692</i> | <i>524,763</i> | <i>0.59</i> | <i>1.54</i> |
| Unemployment Rate (Percent, Seasonally Adjusted) | 1.69 | 1.76 | 2.37 | -- | -- |
| <i>Unemployment Rate (Percent, Unadjusted)</i> | <i>1.61</i> | <i>1.74</i> | <i>2.26</i> | <i>--</i> | <i>--</i> |

Notes: All components included in the indices are seasonally adjusted. In addition, those expressed in dollar value (Average Building Permit Value, Transient Occupancy Tax, and Sales Tax) are expressed in constant 1987 dollars. Initial Claims are inverted prior to inclusion in the Leading Index; that is, an increase in claims results in a decrease in the index and visa versa. Because of its quarterly collection schedule, the Transient Occupancy Tax is smoothed. Unadjusted data (*italics*) and Fairfax County Labor Force data are not included in either index, but are shown for informational purposes. All percent changes are calculated from unrounded data.

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